

Message Text

CONFIDENTIAL

PAGE 01 LISBON 06260 121245Z

ACTION EUR-12

INFO OCT-01 ISO-00 AF-10 OPIC-03 AID-05 SP-02 USIA-06

EB-08 NSC-05 TRSE-00 SS-15 STR-04 OMB-01 CEA-01

EURE-00 ABF-01 FS-01 CIAE-00 COME-00 FRB-03

INR-07 NSAE-00 XMB-02 LAB-04 SIL-01 L-03 H-01

AGRE-00 DODE-00 PA-01 PRS-01 /098 W

-----120221 121251Z /46

P 121109Z AUG 77

FM AMEMBASSY LISBON

TO SECSTATE WASHDC PRIORITY 2614

C O N F I D E N T I A L LISBON 6260

ALSO PASS TREASURY FOR SYVRUD

E.O. 11652: XGDS-3

TAGS: EFIN, ECON, PO

SUBJECT: FINMIN ON NEW ECONOMIC MEASURES; FOREIGN EXCHANGE
SITUATION

1. DURING CONVERSATION WITH AMBASSADOR AUGUST 11, WITH CENTRAL BANK GOVERNOR SILVA LOPES ALSO PRESENT, FINANCE MINISTER MEDINA CARREIRA SAID GOP WILL ANNOUNCE NEW AUSTERITY MEASURES BEFORE END OF THIS MONTH. FINMIN DID NOT SPECIFY NATURE OF MEASURES, BUT IMPLIED THEY WOULD BE QUITE RESTRICTIVE AND COULD EVEN LEAD TO STAGNATION OF MODEST GNP RECOVERY WHICH PORTUGUESE ECONOMY HAS BEEN EXPERIENCING OVER LAST FEW FMONTHS. HE NOTED PARENTHETICALLY THAT SOARES HAD CHASTISED FOR HIS PUBLIC DENIAL OF PRESS REPORTS ON DEVALUATION.

2. BANK GOVERNOR SILVA LOPES SAID GOP'S DESIRE IS TO INSTITUTE MEASURES THAT WOULD HELP TURN PORTUGAL'S BALANCE OF PAYMENTS SITUATION AROUND WITHOUT SERIOUSLY COMPROMISING GROWTH PROSPECTS. HOWEVER, IMF IS SO FAR, AND PERHAPS CANNOT HELP BEING, INSENSITIVE TO PORTUGAL'S PARTICULAR PROBLEM OF BALANCING NEED FOR GROWTH WITH ATTAINMENT OF
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LISBON 06260 121245Z

EXTERNAL BALANCE; IMF HAS BEEN FOCUSING ON POLICIES AT MACRO LEVEL WHICH COMPROMISE GOP'S ABILITY TO TACKLE OTHER GRAVE PROBLEMS, E.G., UNEMPLOYMENT. SILVA LOPES SAID FURTHER THAT IT IS GOP'S INTENTION TO HAVE IMF TEAM RETURN TO LISBON PRIOR TO BEGINNING OF ANNUAL MEETING OF WORLD BANK GROUP IN ORDER TO COMPARE NOTES IN PREPARATION FOR SECOND TRANCHE NEGOTIATIONS. GOP HOPES TO INITIATE NEGOTIATIONS

WITH IMF IN WASHINGTON WHILE PORTUGUESE DEL IS THERE FOR WORLD BANK MEETING; AND CONCLUDE THEM IN LISBON BY EARLY OCTOBER. AMBASSADOR REMINDED SILVA LOPES OF USG CONDITIONS FOR DISBURSEMENT OF US SHARE OF DOLS. 750 MILLION LOAN, HIGHLIGHTING NEED FOR GOP TO ENGAGE IMF IN SECOND TRANCHE NEGOTIATIONS.

3. STATUS OF FOREIGN EXCHANGE RESERVES: SILVA LOPES SAID FOREIGN EXCHANGE ON HAND NOW (AUGUST 11) TOTALS ABOUT DOLS. 110 MILLION, WITH ACCESS TO ANOTHER DOLS. 60 MILLION, PRESUMABLY REMAINING AMOUNT FROM BIS LOAN. HE SAID PRESS SPECULATION ABOUT ESCUDO DEVALUATION HAS APPARENTLY STIFLED ANTICIPATED IMPROVEMENT IN FOREIGN EXCHANGE RECEIPTS. ON AUGUST 10 ALONE BANK OF PORTUGAL LOST DOLS. 10 MILLION IN RESERVES. HOWEVER, BANK HAS BEEN SUCCESSFUL IN ROLLING OVER SOME CREDITS MATURING IN AUGUST AND SEPTEMBER, RAISING HOPES THAT PORTUGAL MAY WEATHER FOREIGN EXCHANGE CRISIS THROUGH END OF SEPTEMBER. HE ALSO CONFIRMED THAT DOLS. 30 MILLION LOAN FROM MANUFACTURERS HANOVER TRUST IS IN THE WORKS (SEE LISBON 6184).

4. COMMENT: MEDINA CARREIRA AND SILVA LOPES ARE, OF COURSE, THE FOREMOST ADVOCATES OF ADDITIONAL MEASURES, INCLUDING DEVALUATION, WITHIN GOP. IN A SIDE CONVERSATION MEDINA CARREIRA ASSURED SILVA LOPES THAT THOSE WHO HAD OPPOSED NEW MEASURES (PRESUMABLY SOUSA GOMES) HAD SUB-CONFIDENTIAL

CONFIDENTIAL

PAGE 03 LISBON 06260 121245Z

STANTIALY MODIFIED THEIR ATTITUDE (LISBON 6073). IT IS NOT CLEAR FROM THIS CONVERSATION (INDEED, IT MAY NOT YET BE DECIDED) HOW FAR-REACHING THE PACKAGE WILL BE, BUT MEDINA CARREIRA USE EXTRA EMPHASIS IN SAYING IT WOULD BE TOUGH. THEIR CONCERN ABOUT ITS EFFECTS ON DEVELOPMENT, HOWEVER, IS GENUINE. AFTER HAVING EXPENDED CONSIDERABLE POLITICAL CAPITAL IN GETTING THROUGH THE ASSEMBLY A SERIES OF MEASURES DESIGNED TO PROMOTE ECONOMIC RECOVERY THE GOP IS QUITE NATURALLY WORRIED THAT THE IMF--FOR REASONS WHICH ARE UNRELATED TO PORTUGAL AND WHICH MEDINA CARREIRA AND SILVA LOPES AS TECNICIANS UNDERSTAND--WILL SAY THAT NO MATTER HOW MUCH THE GOP DOES IT IS NOT SUFFICIENT. THEY INDICATED THEY HOPE TO ENLIST OUR SUPPORT IN PERSUADING THE IMF THAT THEY ARE BEING TOUGH BUT THAT THEY HAVE TO BALANCE COMPETING POLICY CONSIDERATIONS, AND THERE ARE ALSO POLITICALLY AND SOCIALLY IMPOSED LIMITS TO WHAT THEY CAN DO.
CARLUCCI

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FOREIGN EXCHANGE, ECONOMIC PROGRAMS
Control Number: n/a
Copy: SINGLE
Sent Date: 12-Aug-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977LISBON06260
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: X3
Errors: N/A
Expiration:
Film Number: D770291-0050
Format: TEL
From: LISBON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770868/aaaacfee.tel
Line Count: 111
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 9753755b-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 03-Feb-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1619678
Secure: OPEN
Status: NATIVE
Subject: FINMIN ON NEW ECONOMIC MEASURES; FOREIGN EXCHANGE SITUATION
TAGS: EFIN, ECON, PO
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/9753755b-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009